

# The Democratic Tax and Debt Reduction Plan

The Democratic Plan provides dramatic tax relief for Americans, especially working families with children. Also, it substantially eliminates the marriage penalty for most couples, immediately eliminates the estate tax for all but the largest estates, and dramatically reduces the per capita national debt owed by all Americans.

## Tax Reduction

The Democratic Plan provides substantial, effective, fiscally responsible, and fair tax relief. As such, it provides more immediate benefits for working Americans than the larger, riskier Bush proposal.

- **Substantial.** (1) The Democratic proposal provides a new, lower 12% tax rate on a couple's first \$20,000 of taxable income (\$10,000 on a single return). This would provide a maximum tax cut of \$600 annually for couples and \$300 for singles. Couples who use the standard deduction also would receive "marriage penalty" relief of \$225, yielding a total maximum tax cut of \$825. (2) The proposal also provides a refund for lower income working families worth as much as \$320 annually for a couple with two children. Marriage penalty relief would total \$528 for this family, yielding a maximum tax cut of \$848. (3) Finally, under the plan over two-thirds of all currently taxable estates would no longer owe any Federal estate tax. (While under current law only 2% of estates are taxed, under the Democratic proposal only .6% of all estates would be taxed.)
- **Effective.** The income tax provisions of the Democratic plan begin immediately and are fully effective on January 1, 2003. Unlike the Bush plan, there is no lengthy, five-year phase in, with the full promised relief not being provided until 2006. Also beginning January 1, 2002, the Democratic plan provides that estates above \$4 million for a married couple would be exempt from federal tax. This exemption amount will increase to \$5 million over time. Additionally, in contrast to the Bush proposal, none of the reductions provided in the Democratic proposal would be reduced by the Alternative Minimum Tax.
- **Fiscally Responsible.** The Democratic plan uses one third of the projected budget surpluses, after the Social Security and Medicare trust funds have been protected. This prudent tax cut will allow other urgent national short- and long-term needs to be addressed in manner which does not risk pushing our country back into deficits, if budget projections prove to be inaccurate.
- **Fair.** The Democratic plan focuses its relief on working couples and families with children by providing an average tax cut over \$500. For upper income couples who itemize deductions the tax cut is limited to \$600, a fair share of this tax relief. The top 1% (i.e. those making over \$319,000 per year) will not receive a disproportionate share of the cut under this plan, as opposed to the 43% of benefits they would get under the Bush plan.

## **Debt Reduction**

In addition to a tax burden, Americans also have a substantial debt burden. Specifically, the current Federal debt of \$3.4 trillion equals \$12,000 for each American alive today. Under the Democratic plan, the amount of debt available for retirement will be eliminated by 2008. Under the Bush plan not only will this debt not decrease as dramatically, it also is possible that future deficits, resulting from excessive tax cuts, adverse economic developments or future spending decisions, actually will increase the federal debt.

## **Elements of Tax Proposal**

### **I. INCOME TAX RATE REDUCTION & WORKING FAMILY TAX CUT.**

The proposal creates a new 12 percent bottom rate bracket for the first \$20,000 of taxable income, equivalent to approximately \$41,000 of total income for a couple with two children. (The lower rate applies to first \$10,000 of taxable income on a single return). The Earned Income Tax Credit is simplified and increased for working families with children.

### **II. MARRIAGE PENALTY RELIEF.**

The proposal creates a standard deduction for married couples equal to twice the standard available to single individuals. Specifically, the current law standard deduction of \$7,800 per couple is increased to \$9,300. In addition, the EITC and rate reduction provisions include significant marriage penalty relief.

### **III. ESTATE TAX RELIEF.**

Effective January 1, 2002, the proposal increases the estate tax exclusion to \$4 million per married couple (\$2 million per taxpayer). This amount gradually increases to \$5 million. The proposal would repeal the estate tax for over two-thirds of the estates now liable for the estate tax.

## **A Responsible Budget Framework**

The proposal specifies tax cuts which would reduce taxes by a net \$800 billion between 2002 and 2011, including interest costs. An additional \$100 billion is reserved for other, unspecified tax cutting priorities.

This amount is consistent with the House-Senate Democratic Leadership budget proposal which allocates the \$2.7 trillion non-Social Security, non-Medicare budget surplus projected by CBO equally to each of the following purposes: (1) tax cuts; (2) priority investments, such as a Medicare prescription drug benefit, education, and national defense; and (3) debt reduction which would allow us to preserve and strengthen Social Security and Medicare by paying down the redeemable federal debt by 2008.

# A Democratic Budget Framework and Tax Cut

(All are ten-year totals)

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Democratic "Budget Framework" Allocation: \$900 billion\*  
1/3 of non-Social Security, non-Medicare surplus

Specified tax cuts: \$800 billion

- Rate Reduction and Working Family Refund

New 12% bottom-bracket  
income tax rate \$460 billion

Working Family Refunds  
(i.e., improvements to Earned Income  
Tax Credit, including marriage  
penalty relief) \$ 60 billion

- Marriage Penalty relief under  
regular income tax (i.e., higher  
standard deduction for  
couples) \$ 65 billion
- Estate tax relief (i.e., \$2 million  
per person exclusion for year  
2002 with subsequent increases)  
\$ 40 billion
- Debt service \$175 billion

Reserve for unspecified tax cuts \$100 billion\*

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\*Includes higher debt services costs

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